

Message Text

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ACTION ARA-10

INFO OCT-01 IO-13 ISO-00 GSA-02 AID-05 CIAE-00 COME-00

EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 PM-04

NSC-05 SS-15 PRS-01 L-03 INT-05 STR-04 /105 W

-----191543Z 125355 /43

R 182055Z MAR 77

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3942

INFO USMISSION GENEVA

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E.O. 11652: N/A

TAGS: CI, EMIN, EINV

SUBJECT: COMMODITY AGREEMENTS: COPPER: CHILEAN POLICY

1. SUMMARY. EMBASSY TOOK ADVANTAGE OF RECEIPT OF WIRELESS FILE SUMMARY OF DEPUTY ASSISTANT SECRETARY BOSWORTH'S MARCH 10 STATEMENT AT UNCTAD MEETING TO DISCUSS CHILEAN POINT OF VIEW WITH PABLO GONDONNEAU, HEAD OF CHILE'S COPPER COMMISSION. THIS TEL RECITES CHILEAN MISGIVINGS OVER NEW DIRECTIONS IN USG POLICY, ANS ASKS THAT WE BE BETTER INFORMED THAT WE HAVE BEEN RE ITS BACKGROUND AND EVOLUTION. END SUMMARY.

2. GONDONNEAU IS PUZZLED BY APPARENT SHIFT IN US POLICY. IN THE FEBRUARY GENEVA MEETING THE US DELEGATE ARGUED FOR SEPARATE CONSIDERATION OF COPPER IN A PRODUCER-COMSUMER DIALOG. IN THE END, HOWEVER, HE WAS INSTRUCTED TO SUPPORT THE PERUVIAN RESOLUTION FAVORING THE COMBINED PROGRAM, THUS LEAVING CHILE ISOLATED.

3. CONDONNEAU POINTS OUT THAT COPPER IS NOW BEING CONSIDERED IN AT LEAST SEVEN FORA: NORTH SOUTH CONFERENCE, PARIS CONFERENCE, CIPEC, UNCTAD, INTERNATIONAL WROUGHT COPPER CONCIL, GATT AND THE LAW OF THE SEA CONFERENCE. DESPITE THE LARGE NUMBER OF

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REPORTS AND PAPERS BEING GENERATED, THE GOC NOW REGARDS THESE SESSIONS AS SO LACKING IN SERIOUSNESS OF PURPOSE THAT IT HAS ELECTED NOT TO SEND A SPECIAL REPRESENTATIVE TO THE CURRENT UNCTAD MEETING AT GENEVA. INSTEAD, IT WILL ACCREDIT MEMBERS OF ITS PERMANT MISSION THERE.

4. GONDONNEAU BELIEVES THAT THE COPPER DIALOG MUST BE EXTRACTED

FROM THE POLITICAL AREA. PRODUCERS AND CONSUMERS SHOULD CONTRACT THE SERVICES OF CONSULTANTS TO PROPOSE TECHNICAL SOLUTIONS AND THEN PROCEED TO AN AGREEMENT. HE FINDS THE COMMON FUND CONCEPT BAFFLING. IT LUMPS COPPER WITH ANY NUMBER OF PRODUCTS, EACH OF WHICH FACES VASTLY DIFFERENT PRODUCTION AND MARKETING PROBLEMS.

5. UNTIL NOW GOC HAS BEEN SUPPORTIVE OF USG POSITION IN REGARD TO COMMODITY AGREEMENT. IT IS NOT PREPARED TO FOLLOW US INITIATIVES WITHOUT REGARD TO WHERE SUCH POLICY IS LIKELY TO LEAD. THE COMMON FUND IS VIEWED AS VIRTUALLY UNACHIEVABLE. GONDONNEAU WONDERS WHETHER GERMANY OR JAPAN WOULD CONTRIBUTE AND SUCCESS WOULD NOT BE POSSIBLE WITHOUT STRONG DC SUPPORT.

6. GONDONNEAU POINTS OUT THAT CONSUMERS HAVE A LARGER STAKE THAN PRODUCERS IN DEVELOPING A RAPID SOLUTION TO THE EXCESSIVE FLUCTUATIONS AND DEPRESSED PRICES IN TODAY'S COPPER MARKET. HISTORICALLY, COPPER DEMAND HAS INCREASED AT CLOSE TO 4 PERCENT PER YEAR, EVEN A PROJECTION AT 2 PERCENT YEARLY DEMAND INCREASE REQUIRES INCREMENT IN WORLD CAPACITY OF SOME 140,000 MT PER YEAR/ CURRENT EXPENSES FOR EQUIPMENT AND CAPITAL HAVE PUSHED MINE CONSTRUCTION COST TO \$ 6 TO 7.00 PER TON YEAR REQUIRING COPPER PRICES OF BETWEEN \$1.00 AND \$1.20 PER POUND FOR PROFITABLE OPERATION OF NEW MINES. POLLUTION CONTROLS NOW OFTEN REQUIRED WILL ADD 15 CENTS PER POUND TO COSTS.

7. BECAUSE PRESENT PRICE STRUCTURE IS INHIBITING COPPER INVESTMENT FUTURE PRODUCTION IS NOT LIKELY TO KEEP UP WITH DEMAND. EVENTUALLY THIS WILL CAUSE SHORTAGES AND INFLATED COPPER PRICES. BECAUSE OF THE TEN YEAR LEAD TIME NEEDED TO OPEN NEW COPPER MINES, LIMITED OFFICIAL USE

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GONDONNEAU ATTACHES URGENCY TO THE NEED FOR PRACTICAL ACTION TO OVERCOME THE PROBLEMS IN THE COPPER MARKET. THE CHILEAN VIEW IS THAT OPENING THE DISCUSSION TO SEVERAL COMMODITIES AND ALL COUNTRIES, WHETHER OR NOT MAJOR PRODUCERS OR CONSUMERS, WILL BOG DOWN DISCUSSIONS AND FRUSTRATE AGREEMENT; A LUXURY WHICH NEITHER PRINCIPAL COPPER PRODUCERS NOR CONSUMERS CAN AFFORD.

8. ACTION REQUESTED: PLEASE SUPPLY FULL TEXT BOSWORTH'S ADDRESS. ALSO WOULD APPRECIATE FULL BACKGROUND INCLUDING TELEGRAMS POSSIBLY NOT REPEATED TO SANTIAGO ON CURRENT USG POLICY.
POPPER

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